

# 2009 Strategic Business Plan

July 1, 2008 through  
June 30, 2009



MONTANA  
**STATEFUND**

New Horizons

# Table of Contents

From the President .....	1
Executive Summary.....	2
Strategic Framework.....	3
Guiding Principles.....	3
Key Success Measures .....	4
Enterprise-Wide Initiatives .....	5
Organizational Profile.....	7
Financial Projection.....	8

## Montana State Fund Board of Directors

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## From the President...



Successful businesses share certain characteristics. Their mission, vision and core values are clearly articulated. They focus and allocate limited resources—both human and capital—through strategic planning and execution of their plan. However, although strategic planning creates a road map toward specific long-term goals, truly successful organizations must act quickly and opportunistically when confronted with today's dynamic market conditions. They must be flexible enough in planning to respond to change, and must be able to adapt or, in some cases, reinvent strategy in the face of this change.

Ultimately, we depend on knowledgeable and engaged people to make things happen. As our aging baby-boom population approaches retirement, our society will face very different and difficult workforce challenges. Experts predict an imminent decrease in the supply of new professionals needed to replace older workers. Younger workers' wants, needs and expectations are dramatically different than those of the boomers they are replacing. We must continually and systematically invest in workforce development and talent management in order to attract and retain the best and brightest to maintain our competitive edge. Our strategies will concentrate on improving our practices in acquiring qualified employees, implementing and improving internship and trainee programs for our professional positions, continuing to strengthen training programs, and reviewing and creating options to enhance employee benefit plans to meet employee needs such as flexibility enhancement in work schedules.

In fiscal year 2009, construction will begin on the new environmentally-friendly building to house Montana State Fund. We will address some of the unique needs of our workforce, allowing them to provide the highest level of service to our valued customers for years to come.

Montana workplace injury accident rates are too high—57% above the national average. Montana can and must do better. Montana State Fund will continue to educate the public and policymakers about the importance of creating and maintaining a safety culture in our state. By investing time and resources in public/private programs designed to increase the awareness of this important issue, we intend to create meaningful improvement in workplace safety by our unrelenting commitment to making a positive impact in reducing the frequency of accident rates in the workplace.

In order to effectively combat the increasing costs of medical care and the negative impact of time away from work due to injury, we will continue to evaluate new ways to improve medical outcomes. Through a more comprehensive understanding of trends in medical utilization made available through enhanced data tools, we can improve our focus on the key issues having the greatest impact on medical costs. In addition, when injuries do occur, Montanans take longer to get back to work than the national average. Montana State Fund will invest in statewide efforts to educate employers, workers and providers on the negative impacts of time away from work as a result of injury, and how effective transitional and modified duty jobs can improve injury outcomes and reduce costs.

Montana State Fund remains committed to being the industry leader in customer service by leveraging our talent, our unparalleled knowledge of Montana's workers' compensation system, and through our commitment to a safer and healthier Montana.

A handwritten signature in black ink, appearing to read "L. Hubbard".

Laurence Hubbard  
President/CEO

# Executive Summary

Montana State Fund operates in a dynamic and competitive workers' compensation environment. We are committed to meeting the high service level expectations of our customers and do so with a knowledgeable, flexible, and engaged workforce. Everything we do is with this customer focus in mind, from safety management services to stakeholder education. Many of our strategic initiatives have their beginnings in prior plan years and will likely remain recurrent themes in years to come.

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*Our strategic objectives focus on enhancing customer satisfaction levels and, at the same time, delivering efficient and cost effective service.*

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Continued focus on workforce talent management, development, and retention ensures that we have the right people in the right jobs doing the right things for the delivery of the best possible customer service, while at the same time, maintaining a supportive, challenging and interesting work environment. Leveraging the massive amount of data we have accumulated over the years through our newly developed Insurance Intelligence system will enable us to respond more rapidly to trends impacting our performance results. Developing new and innovative ways to improve Montana's safety culture and shorten the time a worker is away from work due to an injury or illness will have a positive impact on workers' compensation costs for all Montana employers.

Our strategic plan leverages Montana State Fund's unique knowledge of the workers' compensation system and our superior customer service commitment to address the challenges we face and capitalize on the opportunities that arise in our great state.

## Enterprise-Wide Initiatives:

### 1) Workforce

Attract the best available people, provide them with personal and professional development opportunities, and create a unique array of benefits to mitigate turnover, increase employee longevity, and strengthen institutional knowledge.

### 2) Customer Service

Educate our constituency, create and instill a culture of safety, and address staffing, processes, and procedures to more effectively manage medical costs.

### 3) Infrastructure

Provide the tools necessary for Montana State Fund employees to service our customers in the most efficient, effective and productive manner possible.



# Strategic Framework

## Mission

*Montana State Fund is Montana's insurance carrier of choice and industry leader in service.*

## Vision

*Montana State Fund is committed to the health and economic prosperity of Montana through superior service, leadership, and caring individuals working in an environment of teamwork, creativity and trust.*

# Guiding Principles

## Integrity and Ethical Conduct

In the course of providing superior service to our policyholders, their injured employees, and insurance producers, we will conduct ourselves ethically and with the highest degree of integrity.

## Customer Focus

Enhance and maintain a partnership with stakeholders in the true spirit of cooperation and collaboration. Enter into strategic partnerships where appropriate to enhance the service and products we provide our customers.

## Strong Financial Position

Set adequate rate levels to maintain financial strength and stability, ensuring long-term viability and financial solvency.

## Offer Quality and Competitive Insurance Products

Deliver high quality products to Montana businesses at the lowest possible cost consistent with sound insurance principles. Foster and support a competitive insurance market in Montana. Function like a private insurer, offering a competitively priced product based upon actuarially sound rates while still fulfilling our role as the guaranteed market.

## Employee Growth and Development

Provide a performance-driven culture within a continually improving work atmosphere that is conducive to the growth and development of our employees. Promote a customer-focused, team oriented, high performance environment that empowers, challenges, and rewards our employees.

# FY 2009 Key Success Measures

Key success measures are the goals and objectives established for fiscal year 2009. These "SMART" goals—Specific, Measurable, Attainable, Realistic, and Timely—represent the corporate level success measures that will allow us to gauge our financial and strategic progress. We have incorporated five financial measures and one multifaceted qualitative measure that, combined, define success for Montana State Fund.

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*Five financial measures and one multifaceted qualitative measure define success for Montana State Fund.*

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- 1) Achieve targeted FY Net Operating Income before dividend of \$21.4M
- 2) Achieve total Net Earned Premium of \$211.4M
- 3) Achieve Fiscal Year Loss Ratio of 86.0%
- 4) Maintain Expense Ratio of 28.0% or less
- 5) Achieve Investment Income of \$46.2M
- 6) Achieve Enterprise-Wide Initiatives



# Enterprise-Wide Initiatives

Enterprise-wide initiatives are critical elements for the continued success of Montana State Fund. These initiatives are supported by a number of multifunctional efforts and comprised of measurable key performance indicators, which help to ensure the accomplishment of our stated goals and objectives. In addition, these initiatives also support our mission, vision and core values.

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*Our enterprise-wide initiatives are supported by measurable key performance indicators.*

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## 1) Workforce

Develop opportunities within MSF to "grow our own" talent in order to supplement the talent we attract from an ever-shrinking pool of qualified candidates. Provide a challenging yet rewarding work experience, one that recognizes and rewards accomplishment, and offers myriad opportunities for personal and professional growth and achievement.

### Key Performance Indicators

**Talent Attraction.** Leverage existing recruiter relationships through enhanced fee schedules and greater clarity about needs and employee fit issues. Establish and foster stronger relationships with state colleges and universities through the creation of an internship program. Expand the current trainee program beyond the claims examiner position. Actively participate in industry trade shows and other forums to enhance the reputation of Montana State Fund.

**Talent Development.** Utilize MSF University as the primary vehicle for the creation, coordination, and implementation of growth and development opportunities for employees. Enhance our tuition reimbursement program. Develop and implement a recognition and reward program for employees that achieve the high standards required for professional certification.

**Talent Retention.** Enhance and implement alternative work schedule options. Research the cost, feasibility and impact of a "cafeteria" type employee benefit program. Investigate the creation of a matching contribution deferred compensation option in lieu of the existing incentive compensation program.

## 2) Customer Service

Clearly articulate who we are and what we're committed to for our policyholders, their employees, and, ultimately, all Montanans. Develop and reinforce an unwavering commitment to a culture of safety among all Montana businesses. Continue to evaluate our operating processes and procedures to ensure that we are fulfilling our promise and providing service to our customers in the most effective and efficient manner possible.

### Key Performance Indicators

**Constituency Education.** Provide a clear, uniform and consistent message regarding the mission of Montana State Fund. Articulate its roles and responsibilities to employers, employees, and the well-being of all Montanans.

**Building a Safer Montana.** Fully communicate, develop, and nurture a culture of safety among policyholders. Partner with policyholders to make Montana a safer work environment for all its citizens.

**Medical Cost Management.** Evaluate our organizational structure's ability to provide the most efficient and effective medical cost management. Focus attention on the utilization of medical case managers, the supervision of the claim handling process, and the deployment, utilization and costs associated with the expansion of safety services.

### 3) Infrastructure

Provide the appropriate working environment, technology and tools to empower our employees to most effectively and efficiently service our customers. Build a physical work environment that is conducive to superior performance while recognizing our responsibilities as good corporate citizens and stewards of the environment. Develop and provide leading-edge tools that will allow our employees to maximize their contribution to those we serve.

#### Key Performance Indicators

**Insurance Intelligence.** Develop an "insurance intelligence" based Medical Mart, containing prescription data from CorVel, as well as medical bill information from NHMC to facilitate ad hoc and routine medical services reporting, proactively addressing medical costs.

**Physical Plant.** Work with the Montana Board of Investments to coordinate the construction of and facilitate the relocation into a new, environmentally-friendly building that will house all MSF employees.





# Organizational Profile

The state of Montana originally established the predecessor to Montana State Fund in 1915 to function as a competitive workers' compensation insurance carrier. Since then, MSF has operated under a number of different forms, with its current structure resulting from legislative actions taken in 1990. At that time, the legislature separated the workers' compensation regulatory function (originally established in the Montana Department of Labor and Industry) from the day-to-day insurance operations responsibilities (which were vested in a separate, new entity known as Montana State Fund). A seven member Board of Directors, appointed by the governor, governs the operations of Montana State Fund. The board is also responsible for appointing the president/CEO.

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*We have made a major investment in our safety management services, working diligently with Montana employers in developing accident prevention programs.*

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Montana State Fund is a self-sufficient, not for profit, workers' compensation insurance carrier. Our statutory purpose is to act as a competitive insurance carrier, providing an available market, and, thereby, guaranteeing coverage to all employers in Montana. We receive no taxpayer or general fund money, operating solely on the premium dollars paid by the insured employers and the net proceeds from our investments. We function like a private insurance carrier in a competitive marketplace and, as provided by law, perform all the functions and exercise all the powers of a private insurance carrier that are necessary, appropriate, or convenient for the administration of the Montana State Fund.

MSF has undergone a number of changes since our creation in 1990. We have transitioned from a traditional organizational structure to one that is more adapted to the demands of the information age. A comprehensive corporate redesign in 2000 enhanced our operational flexibility with the addition of multifunctional teams that are aligned with specific groups of employers. This change resulted in a "flatter" organization, increasing employee empowerment, which allows us to work more closely with our policyholders and their injured employees. We continue to strive to improve efficiencies in all operational areas and have made a major investment in our safety management services, working diligently with Montana employers in developing accident prevention programs.

As our state's economic structure continues to evolve, we stand ready to continue filling our critical role as the guaranteed workers' compensation market for all Montana employers.

# Financial Projection

## Projected Results of Operations

### Montana State Fund

Statutory Basis (\$000)

## Operating Statement

	Actual 2007	Estimate 2008	Plan 2009	Projection	
				2010	2011
Premium Income	\$238,203	\$230,802	\$211,454	\$219,698	\$230,943
Investment Income	37,920	43,774	46,165	51,095	55,498
Other Income (Loss)	(2,681)	(4,057)	(5,272)	(5,436)	(5,645)
Total Losses and Expenses	247,526	239,470	230,990	240,429	250,387
Policyholder Dividend	7,001	0	TBD	TBD	TBD
Net Income	\$18,915	\$31,049	\$21,357	\$24,928	\$30,409

TBD - Future dividends to be determined by board of directors

Premium to Surplus Ratio (X:1)*	1.16	1.05	0.85	0.78	0.72
Loss Reserve to Surplus Ratio (X:1)*	3.29	3.37	3.17	2.98	2.77
FY Combined Ratio (Loss+LAE+UW)	103.91%	103.76%	109.24%	109.44%	108.42%
Dividend to Premium Ratio	2.94%	0	TBD	TBD	TBD

\* Ratios prior to any dividend declaration

## Balance Sheet

Total Assets	\$1,097,103	\$1,164,157	\$1,205,298	\$1,289,269	\$1,381,725
Unpaid Loss and Loss Adj. Exp.	\$679,209	\$738,302	\$786,496	\$836,843	\$888,997
Other Liabilities	218,725	207,067	170,860	171,441	172,253
Total Liabilities	\$897,934	\$945,369	\$957,356	\$1,008,284	\$1,061,250
Surplus	\$199,169	\$218,788	\$247,942	\$280,985	\$320,475
Total Liabilities and Surplus	\$1,097,103	\$1,164,157	\$1,205,298	\$1,289,269	\$1,381,725

# 2007 ANNUAL REPORT

Financial Highlights • Management Report • Quick Facts • and more

## A LETTER FROM THE CHAIRMAN



On behalf of the Board of Directors, I am pleased to present the Montana State Fund Annual Report for FY2007. As you can see, this dynamic team of professionals is committed to providing all Montana business owners and their employees an essential service that is competitively priced, and fulfills our role as the guaranteed market. While we provide coverage to some of Montana's largest businesses, the majority of our policyholders are the most vital part of this state's economy: the smaller, family-owned operations that keep our towns and communities alive and growing.

Each year at Montana State Fund, we set goals for ourselves—goals that are based on outstanding customer service, claims management, and dedication to our customers. We've reached those goals through superior service performed with the highest degree of integrity and efficiency. We are working hard to reduce workplace injuries through our safety education and training. We help get injured people back to work sooner with our Return to Work program. And we are constantly researching, learning and training to stay in front of trends and new technologies. Workers' Compensation Insurance is a very complicated business, and as such demands a high degree of skill managed by competent, dedicated professionals. Montana State Fund has exactly those qualities.

Also, I would like to personally acknowledge my fellow board members. Yours is a volunteer position, but one that demands a great deal of your personal time. I am energized by your dedication, knowledge and belief in this organization.

Finally, to all our loyal policyholders, agents, legislators, medical providers, employers and employees—thank you. Your support and participation make our hard work worthwhile.

*Joe Dwyer*

Joe Dwyer, Chairman of the Board

## A YEAR OF GREAT ACCOMPLISHMENTS



### WHAT SETS US APART

Montana State Fund's mission and vision focus on the health and economic prosperity of all Montanans, and we offer something that any business needs: value. That's why over 28,000 Montana businesses choose Montana State Fund as their workers' compensation insurance partner.

Our leadership in **safety** is one reason. MSF conducts over 70 safety workshops around Montana that are available to anyone, not just Montana State Fund customers. That's how committed we are to improving workplace safety in Montana. But for our policyholders, there is more: advance training, custom on-site assessment and direction, internet and video resources, and soon, the Safety Champions program.

**Our rates** are another compelling reason. Our premium rates are competitive yet consistent with sound insurance practices. MSF can often offer lower premiums, even with our added services, because we operate efficiently and are experts in Montana workers' compensation insurance. In addition, our **customer service** is second to none. Superior customer service is our hallmark, and it is paying off, both for our customers and our employees. Policyholders have told us again and again how they appreciate our work and attitude. And our employees find satisfaction in being able to help someone who is injured. (See the box at right for some great examples.) What else sets us apart? **The realities of workers' compensation insurance.** In workers' compensation,

**WE WORK HARD TO SERVE OUR CUSTOMERS. AND THEY NOTICE.** Customer service is one of the strengths that sets us apart. Their opinions prove it.

Your employee is so helpful and always on top of my concerns. We appreciate her and your whole team. Please let me know if I can make life easier for you and your staff.

—Insurance Agent

Thanks for all of your help. You are professional and courteous, and you really care about my situation. You're the kind of worker the state needs. Keep up the good work.

—Injured Employee

Your employee is always willing to help answer questions, and consistently calls back to check up on my policy. She is great to work with.

—Policyholder

Extensive industry knowledge and smart financial decisions help keep us competitive. The challenge is, we never know when the next big claim is coming, or how long the payments will last. It's a constant challenge, one that's unique to our industry, and requires us to maintain a substantial savings account (also known as a "surplus").

Of course, it also means our employees and management are conscientious about staying within budgets. That kind of thinking helped us achieve successes like those in fiscal

year 2007. We wrote \$24.8 million in new premium, and earned a total net premium of \$238.2 million. With a 73% market share, we covered about 28,500 policyholders. Of those, only 8% are governmental entities, while 92% are main-street, Montana businesses.

### TAKING THE INITIATIVE TO MAKE SAFETY A PRIORITY IN FISCAL YEAR 2008

Among our many initiatives for fiscal year 2008, arguably the most important is providing a safe workplace for Montana workers. We invest millions of dollars in our safety programs and through dedicated safety professionals. Unfortunately, Montana lags behind other states in workplace safety, with an injury rate that's 57% above the national average. Accident frequency is largely responsible for higher workers' compensation rates in Montana. In addition to our efforts, the Labor and Management Advisory Council on Workers' Compensation, the Montana Chamber of Commerce, and several leading businesses have taken notice, and are taking the initiative to change those results. We're also building a new headquarters to meet current and future business demands. Due for completion in 2010, our new home, located in downtown Helena, will be a LEED-certified ("green") building, because in Montana we do what is right to preserve and protect our environment for future generations. The building will be financed using current invested assets of Montana State Fund managed by the Montana Board of Investments and converted to real estate.

Our goals are far-reaching and so is our commitment to Montana. Through the dedication of our good people, our vision for Montana will be realized, helping make our state the Last Best "Safe" Place to work and to live.

Thank you for the opportunity to serve you.

*Laurence A. Hubbard*

Laurence A. Hubbard, President/CEO

## STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND EQUITY as of June 30,

	2007	2006
<b>ADMITTED ASSETS</b>		
776,129,409	\$ 668,698,440	
100,545,339	83,377,362	
1,139,460	-	
13,744,136	14,919,072	
46,413,103	132,438,892	
7,971,447	899,433,766	
321,721	25,969,723	
521,390	1,266,139	
714,265	9,466,862	
74,298	15,771,861	
13,121	\$ 951,908,351	

## ADMITTED EQUITY

257	\$ 535,114,270	
43	55,573,730	
83	132,438,891	
64	16,484,046	
7	49,195,919	
	788,806,856	
163,101,495		
\$ 951,908,351		

## STATUTORY STATEMENTS OF REVENUE AND EXPENSES AND CHANGES IN EQUITY for the years ended June 30,

	2007	2006
<b>Net Premium Earned</b>	\$ 238,202,708	\$ 211,892,198
<b>Losses Incurred</b>		
Loss Expenses Incurred	(187,821,156)	(180,614,395)
Underwriting Expenses Incurred	(35,428,189)	(25,223,629)
Net Underwriting Loss	(24,277,149)	(19,344,047)
	(9,323,786)	(13,289,873)
<b>Net Investment Income Earned</b>	37,919,659	32,440,146
<b>Net Realized Capital Gains (Losses)</b>	(655,807)	(255,892)
<b>Premium Balances Charged Off</b>	(520,732)	(2,791,527)
<b>Other Income (Expense)</b>	(1,503,672)	(981,233)
<b>Net Income Before Dividends</b>	25,915,662	15,121,621
<b>Policyholder Dividends</b>	(7,000,966)	(5,001,042)
<b>Net Income After Dividends</b>	18,914,696	10,120,579
<b>Prior Year End Equity</b>	163,101,495	148,353,871
<b>Net Unrealized Gains on Equity Securities</b>	17,167,977	6,640,265
<b>Change in Nonadmitted Assets</b>	(14,880)	(2,012,516)
<b>Aggregate Write In for Other Losses in Equity</b>	(771)	(704)
<b>END OF PERIOD EQUITY</b>	\$ 199,168,517	\$ 163,101,495

The complete financial statements, including the accompanying notes, are available upon request.

able for the financial Annual Report. MSF reasonable assurance actions are executed nation. This system of personnel, res, and ongoing annually reviewed

ed complete representative of

audited financial statements including the accompanying notes are available upon request. The preparation and independent external audit of statutory financial statements is discretionary on the part of MSF, but one that is seen as important. Evaluating the financial results of MSF in comparison to other insurers aids in assessing and maintaining the financial security and stability of MSF as a workers' compensation insurer. In addition, MSF is a component unit of the state of Montana. As required in law the Legislative Audit Division (LAD) of the state of Montana conducts independent audits of financial statements of MSF as prescribed by the Governmental Accounting Standards Board (GASB). For the financial periods ending June 30, 2007 and 2006, MSF received unqualified audit opinions from the LAD. The audited governmental financial statements and the related audit opinions are issued under separate cover. To obtain a copy of the presentation of the statutory financial statements in this report differs from the governmental presentation basis (GASB). A financial reconciliation of equity financial statements presented in this report is provided on page 4.



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